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SUBJECT: MADRID WEEKLY ECON/COMMERCIAL/AG UPDATE - DECEMBER  
31 - JANUARY 4

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#### ECONOMY BECOMING A BIGGER ELECTION ISSUE

11. (U) "The economy hounds the socialists only two months before the elections" is the January 4th El Pais headline, a stinging statement coming from the largely pro-government daily, Spain's newspaper of record. December's 4.3% inflation rate (annualized) and a 5.5% increase in unemployment gave rise to this headline. The opposition conservative PP party is trying to make electoral hay out of the negative trends. The socialists are emphasizing the positive overall economic record of the last four years. According to an El Mundo poll, 40.1% of Spaniards think that opposition leader Mariano Rajoy is best placed to manage the economy versus 39.3% who think Zapatero is better placed. In terms of international coverage of the Spanish economy, the Financial Times ran a January 4 article entitled "Spain's house of cards has started tumbling down." The article talks about the problems of a number of construction/real estate development companies, including Astroc, Llanera, and Colonial. (Comment: It may be premature to talk about an economic "crisis" as El Mundo does. However, in politics what often counts is the trend. And the economic trend does not favor the socialists now. There is a palpable difference in media coverage of the economy (lots of stories about inflation, housing problems and now growing unemployment). Given that the race between the socialists and the conservatives is very tight, the conservatives clearly have an opportunity if they can establish greater credibility on economic issues, something they will try to do from now until the March 9 elections.) (El Pais, 1/4/07; El Mundo, 1/4/07; FT, 1/4/07)

#### SANTANDER AIMS TO OVERTAKE CITIGROUP

12. (U) The 73 year old tycoon, Emilio Botin, told 300 executives at a Santander Christmas party that his objective for 2008 is to overtake Citigroup in terms of market capitalization. On January 2, Citigroup's market

capitalization was euros 206 billion and Santander's euros 88.5 billion. On December 28, Santander's market capitalization was euros 92.5 billion and Citigroup's 98.7 billion. Hitherto, Santander has come out relatively unscathed from the U.S. sub-prime mortgage crisis, which makes Botin's goal a possibility. Botin also told the Financial Times that he is looking for additional buying opportunities in the U.S. and the U.K. (El Pais, 12/31/07); FT, 12/31/07)

FT'S YEAR IN 2007 STATISTICS SHOW SPAIN'S HOUSING AND EQUITIES MARKETS UP

13. (U) Housing prices were up by 5% (lower than previous years, double digit increases) and the stock market up by 7%. Among large economies, only Germany's stock market performed better. In the U.S., stocks were up by about 3%. (Comment: Most observers think housing prices will decline in Spain in 2008, at least in real terms. With respect to Spain's Ibex-35, the future is less clear. Given that Spanish companies, including construction companies, have diversified so aggressively overseas, the Spanish stock market could still perform relatively well in 2008.) (FT, 12/31/07)

ITALIAN PRIME MINISTER PRODI QUESTIONS SPANISH ECONOMIC "SORPASSO" OF ITALY

14. (U) An angry Prodi signed a letter to Italian press agency Ansa explaining that in 2006, Italy's GDP per capita was euros 25,100 and Spain's was euros 22,300. However, adjusted for purchasing power parity, Eurostat found that a Spaniard had higher purchasing power than an Italian. Prodi referred to an IMF methodology which found that an Italian could, on average, buy more than euros 3,000 a year than a Spaniard. Prodi noted that there is no standard purchasing power parity calculation methodology. However, the El Pais story on this topic notes that when Prodi was President of the European

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Commission, he never referred to IMF statistics! (El Pais, 1/3/07)

HOUSING PRICES UP BY 5.1% IN 2007

15. (U) But, prices went up by 9.1% during the first half of 2007 and only 1.1% during the second half of 2007. This is one more indicator that 2008 will be a rough year for house prices in Spain. (El Pais, 1/3/07)

IBEX-35 UP BY 8% DURING 2007

16. (U) Telefonica, Iberdrola, Acciona and Santander were responsible for a large part of the uptick. In fact, Telefonica alone was responsible for 76% of the growth. Medium-sized banks, construction companies, real estate development firms and TV channel were a drag on the stock index. (Cinco Dias, 12/28/07)

SPAIN TO APPEAL NEW YORK COURT'S PRESTIGE RULING

17. (U) U.S. Federal courts dismissed on Wednesday a damage claim filed by Spain against the American Bureau of Shipping ruling that Spain must pursue its claims in its own courts in accordance with the International Convention on Civil Liability for Oil Pollution Damage (CLC). In other words, the court ruled that it does not have standing on this matter. The Prestige disaster was Spain's worst environmental disaster damaging fishing, tourism and natural habitats in the region. Spain argues that the bureau was negligent in its classification of the 26 year old vessel clearing the single hulled vessel as fit to carry fuel. The Justice Ministry issued a statement announcing they will appeal the decision. (El Pais 1/3/07)  
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